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S E C R E T SECTION 01 OF 03 TEGUCIGALPA 000091

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TREASURY FOR AFAIBISHENKO
STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK
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TAGS: [EPET](#) [ENRG](#) [PREL](#) [BBSR](#) [NI](#) [VE](#) [HO](#)

SUBJECT: HONDURAN GOVERNMENT BLAMES OIL COMANIES; COMPLAINS
USG CRITICISMS OF TAKEOVER PUT PRESIDENT IN PRECARIOUS
POSITION

REF: TEGU 0077 AND PREVIOUS

Classified By: AMB Charles Ford for reasons 1.4 (b,d)

¶1. (S/NF) Summary: Ambassador, Charge, and EconChief met with Ministers Enrique Flores Lanza and Milton Jimenez on January 16 to discuss the announced GOH intent to seize control of U.S. owned oil storage facilities without the consent of the owners. Both Ministers blamed the companies for failing to participate constructively in seeking a resolution to this matter, and said they did not understand the USG's continuing opposition to the plan. Both claimed they support a liberalization of the sector in the medium term, but for political reasons need to demonstrate savings at the pump now, even if that means seizing investor assets. Ambassador and the Ministers agreed on the importance of keeping channels of communication open, and Ambassador expressed the USG's continuing support for any move towards liberalization that improves market conditions without violating exiting investor rights. At Ambassador's urging, the GOH agreed to sit down with the companies one last time in search of a mutually acceptable exit strategy. Post undertook to contact the companies and urge them to take this last chance seriously and come prepared to negotiate. End Summary.

¶2. (S/NF) In a marathon two and one half hour meeting, Foreign Relations Minister Milton Jimenez and Minister Counselor for Legal Affairs Enrique Flores Lanza told the Ambassador the GOH is not acting against foreign oil companies when it forcibly takes over their facilities. They said the GOH is not a populist or leftist government, and is not seeking conflict with the USG. They claimed the announced takeover of oil storage facilities by the GOH is not expropriation because the facilities will be taken over for only a temporary period of time, in accordance with contractual obligations, rather than making the GOH the permanent new owner of the facilities. They complained that in focusing on investor rights and other commercial issues the USG is losing sight of the political context. The USG

needs to understand, they said, that President Jose Manuel "Mel" Zelaya Rosales is a politician, and if he feels his position is threatened he will act, even against investor interests.

13. (SBU) This meeting came on the heels of a January 15 interview in which Ambassador lamented the lack of respect for private property shown by the GOH when it passed a decree compelling the use of privately owned oil storage facilities without the consent of the owners. One such owner is U.S. firm Esso (ExxonMobil). He also noted that the announced unilateral GOH-imposed reductions in gasoline prices derive from changes in the pricing formula, not from saving on imports, calling into question the benefit of a year-long process by which the GOH sought to nationalize imports to obtain lower costs.

14. (S/NF) The Ministers complained that they could not count on the companies to cooperate in this process. (Note: It has long been the position of the GOH that the fundamental problem is the oil companies' refusal to rent their facilities to the GOH to allow them to nationalize and monopolize the fuels sector. The GOH has known for nearly a year that these firms would not supply storage for this scheme. End note.) Flores Lanza blamed the oil companies' intransigence on "not believing the GOH would go all the way" with the process of taking over the sector. Lanza complained that at every stage the companies could have avoided such an outcome by making a deal with the GOH, but that each opportunity was missed. He dismissed any criticisms of the process based on obtaining no savings, noting that the winner has been decided, and any analysis of actual savings would at this point be merely academic. Lanza admitted that there

TEGUCIGALP 00000091 002 OF 003

might be no savings at all, as lower prices for super unleaded gasoline are offset by higher prices for regular and diesel. But, he said, super unleaded is the "symbol" of the process, so lower prices there perpetuates the perception of savings in the eyes of the public, which is the real goal of the process.

15. (S/NF) Jimenez said he still does not understand the Embassy's position on this matter since, he claimed, the GOH actions are neither against the companies nor populist in nature. He termed the Embassy position a "misunderstanding" of the Honduran position and assumed the Embassy was misinformed. He urged us to speak with "credible" interlocutors. (Comment: Post has spoken in the last several days with Vice President Elvin Santos, Minister of the Presidency Yani Rosenthal, the President's representative on fuel Arturo Corrales, and most of the affected companies. With the possible exception of President Zelaya himself, the Embassy has spoken to the most credible interlocutors involved in the issue. End Comment.) Jimenez claimed the GOH has been open throughout this process, bizarrely citing Zelaya's threat in Managua to turn to Venezuela's President Chavez for assistance if the USG did not force U.S. firms to capitulate. That threat was made openly, he said, which is proof that the GOH has no hidden agenda.

16. (S/NF) Jimenez then noted that Honduras is a factor for stability in the region, and that a radical Nicaragua or stronger Chavista influence in the regional would not benefit anyone. He objected to press accounts of the GOH seizure of oil company installations, complaining that Honduras is not like Venezuela or Bolivia and that troops have not taken the facilities by force. Jimenez implied Honduras is the bulwark in Central America against the spread of Chavista radicalism when he said that the Venezuelans could have been persuaded to present a winning offer during the bid solicitations, but that such an outcome "would not have been convenient" for Honduras. He also criticized USG support for DIPPSA's calls for transparency in the award process, noting that DIPPSA's partner Trafigura likely receives support from Venezuela, and therefore that defending DIPPSA was in essence defending

Chavez. (Comment: We pointed out that our interest is in promoting transparency and credibility of the process, not in defending any particular firm. End Comment.)

¶7. (S/NF) During the discussion, both Jimenez and Flores Lanza claimed that the GOH remains dedicated to market liberalization. However, both were critical of the President's representative to those talks, Arturo Corrales. In support of his mandate to promote a dialogue on liberalization, Corrales has publicly said that the bid solicitation did not yield sufficient savings and that a broader effort must be launched to open the market. Jimenez and Flores Lanza were critical of Corrales for saying anything that makes the bid solicitation look bad, and they accused him of using "the oil companies' words." Jimenez professed ignorance of Corrales' continuing dialogue with the companies about liberalization measures. Flores Lanza noted that Corrales had been given until January 12 to get an agreement from the companies (presumably including storage). When Corrales set up a series of meetings for January 15-17, Zelaya decided the companies must be stalling and therefore took the action on January 13 to seize the installations without consent.

¶8. (S/NF) Ambassador said the USG continues to support liberalization of the market and seeks neither a legal nor a diplomatic battle with the GOH. That said, the GOH crossed a line when it decided to seize private assets, and this is difficult for Post to reconcile with the GOH's allegedly pro-market stance when explaining events to investors or to officials in Washington. While the USG does not advocate leaving the fuels market as it currently is, Ambassador

TEGUCIGALP 00000091 003 OF 003

stressed that an exit strategy must be found that recognizes the legitimate interests of both sides and moves the market towards greater efficiency and transparency. It would be best to use the current momentum and dynamism of this discussion to propel efforts at reform, and not let debate over the bid solicitation delay or substitute for a broader meaningful dialogue on market liberalization.

¶9. (S/NF) Turning to the bilateral impact of this issue, Ambassador noted that relations between the two countries have been excellent on a range of issues, with the exception of the GOH proposal to nationalize all fuel imports. The USG has been very clear and forthcoming in its questions and concerns about this bid solicitation throughout the process, but has been consistently supportive of finding a mutually acceptable exit strategy. The USG remains committed to that outcome, and stands ready to use its good offices to encourage a resumption of such a dialogue. The goal should be to formulate a medium-term strategy that incorporates these disparate elements into an overall thrust towards liberalization, in a way that allows the GOH to take public credit for the move but without prejudicing the interests of U.S. investors.

¶10. (S/NF) Flores Lanza reiterated that in the GOH view, it is the oil companies that have failed to put a constructive offer on the table, and that the GOH continues to wait for such an offer. (Note: Flores Lanza did not mention, however, that the companies could not produce such an offer because the GOH failed for those three weeks to provide the financial analysis of the bid solicitation to them. End Comment.) However, Flores Lanza also said that talks with bid solicitation winner ConocoPhillips resume next week, so any offer must be delivered before then. That leaves just three work days to arrive at a resolution that has eluded private sector and GOH officials for nearly a year.

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